COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4898-01
Bill No.: HB 1389
Subject: Economic Development; Tax Incentives
Type: Original
Date: December 30, 2015

Bill Summary: Establishes the Manufacturing Infrastructure Investment Act, which allows certain businesses to retain withholding taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	($42,451 to Unknown Greater than $15,042,451)	($64,842 to Unknown Greater than $15,064,842)	($65,394 to Unknown greater than $15,065,394)
Total Estimated Net Effect on General Revenue	**($42,451 to Unknown Greater than $15,042,451)**	**($64,842 to Unknown Greater than $15,064,842)**	**($65,394 to Unknown greater than $15,065,394)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 FTE**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Economic Development** (**DED**) assume §620.1920.1 creates the Manufacturing Infrastructure Investment Act. This would be a new program administered by DED. It exempts 100% withholding tax from full-time jobs for up to 10 years for a qualified manufacturing company that makes a new product. It exempts 50% of withholding tax for a company that modifies or expands the manufacture of an existing product.

§620.1920.4 states that no qualified manufacturing company can claim benefits before January 1, 2017.

§620.1920.5 allows a qualified supplier to retain all withholding tax from new jobs for a period of three years from the date of approval of the notice of intent or for a period of five years if the supplier pays wages for the new jobs equal to or greater than one hundred twenty percent of county average wage.

§620.1920.6 - the aggregate amount of withholding tax that may be retained by all qualified manufacturing companies (including suppliers) under this section shall not exceed $15,000,000 per calendar year.

The creation of this program will require the hiring of one Economic Development Incentive Specialist III (at $52,092 annually) to administer the program.

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Specialist III ($42,288) to correspond to the second step above minimum for comparable positions in the state's merit system pay grid.

Officials at the **Office of Administration's Division of Budget and Planning** assume this proposal will allow qualified manufacturing companies and suppliers to retain 50% to 100% of their withholding taxes if they are able to manufacture new products, modify or expand the manufacture of current products, or create new jobs for a period of three to five years.

The retention of the withholding taxes is capped at $10,000,000 per qualified company, and $15,000,000 total per calendar year, beginning 1/1/2017. Therefore, general and total state revenues may be reduced annually by this amount as early as FY 2018, with a reduction of approximately half this amount in FY 2017.

However, if companies are already receiving certain tax credits provided by the state, including

ASSUMPTION (continued)

the Missouri Works Job Training Program, the Real Property Increment Allocation Redevelopment Act, and the Missouri Downtown and Rural Economic Stimulus Act, they may not simultaneously receive the benefits awarded in this proposal. This could decrease the pool of qualified companies.

Officials at the **Joint Committee on Administrative Rules** and the **Department of Revenue** each assume no fiscal impact from this proposal to their respective organizations.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight assumes this proposal allows a qualified manufacturing company to retain 50% of withholding tax that shall not exceed $10,000,000 per calendar year with an aggregate cap of $15,000,000. This proposal also allows qualified suppliers to retain all withholding tax for a period of three years but, does not have a cap. Therefore, Oversight will show the fiscal impact as (Unknown greater than $15,000,000).

Oversight also assumes the proposal could have positive indirect benefits to the state; however, Oversight has only reflected the direct fiscal impact of the foregone withholding tax from the qualified manufacturers and qualified suppliers that may take advantage of this program.

FISCAL IMPACT - State Government	FY 2017 (6 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
Revenue Reduction - creation of the Manufacturing Infrastructure Investment Act - qualified suppliers	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Revenue Reduction - creation of the Manufacturing Infrastructure Investment Act - qualified manufacturers	($0 to $15,000,000)	($0 to $15,000,000)	($0 to $15,000,000)
Costs - DED			
Personal Service	($21,144)	($42,711)	($43,138)
Fringe Benefits	($14,187)	($21,761)	($21,877)
Expenses and Equipment	($7,120)	($370)	($379)
Total Costs - DED	($42,451)	($64,842)	($65,394)
FTE Change - DED	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($42,451 to Unknown greater than $15,042,451)**	**($64,842 to Unknown greater than $15,064,842)**	**($65,394 to Unknown greater than $15,065,394)**
Estimated Net FTE Change on General Revenue	**1 FTE**	**1 FTE**	**1 FTE**

FISCAL IMPACT - Local Government	FY 2017 (6 Mo.)	FY 2018	FY 2019
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for this program could be positively impacted by this proposal.

FISCAL DESCRIPTION

This bill creates the Manufacturing Infrastructure Investment Act which authorizes companies approved by the Department of Economic Development to retain withholding taxes from specified full-time jobs. The qualified manufacturing company and the qualified supplier must file a notice of intent with the department that states the intent to create new jobs or retain current jobs and make a minimum capital investment. The department is required to either deny or approve the notice of intent within 30 days of receiving the notice of intent.

Beginning January 1, 2017, if the approved qualified manufacturing company manufactures a new product, the company may retain 100% of withholding taxes from the full-time jobs for a period of 10 years. If the qualified manufacturing company modifies or expands the manufacture of an existing product, the company may retain 50% of the withholding taxes from the full-time jobs for a period of seven years.

An approved qualified supplier may retain 100% of the withholding tax from new jobs for three years from the date of the approval. If the qualified supplier pays wages for the new jobs that are equal to or greater than 120% of the county average wage, then the qualified supplier may retain 100% of the withholding tax from new jobs for a period of five years. The maximum amount of tax withholding that can be retained by any one qualified manufacturing company may not exceed $10 million. The aggregate amount that can be retained by all qualified manufacturing companies may not exceed $15 million per calendar year.

Any qualified manufacturing company that is awarded benefits may not retain withholding tax under more than one program for the same investment at the same time. The bill requires the qualified manufacturing company to first receive benefits under the other state program and once the company is no longer eligible to retain withholding tax under that program, then the company may receive any remaining benefits, if any, under this law for the remainder of the initial withholding period.

This bill requires the qualified manufacturing company to enter into an agreement that memorializes the content of the notice, requirements, and consequences for failing to meet the requirements, as specified in the bill, within six months of the completion of the notice of intent.

The department must provide a report to the General Assembly prior to March 1 each year that includes the names and locations of the qualified manufacturing companies and qualified suppliers, annual amount of benefits provided, estimated net state fiscal impact, and number of jobs created or retained.

This bill will expire on December 31 six years after the effective date.

SJ:LR:OD

FISCAL DESCRIPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Department of Economic Development
Office of the Secretary of State
Office of Administration's Division of Budget and Planning
Joint Committee on Administrative Rules

Mickey Wilson

Mickey Wilson, CPA	Ross Strope
Director	Assistant Director
December 30, 2015	December 30, 2015

SJ:LR:OD